Hershey Foods Corporation / 1979 Annual Report

CONTENTS

HERSHEY...

is a major domestic producer of chocolate and confectionery products, operates a chain of restaurants; is a major producer of pasta products; and operates an office coffee service plan.

The Chocolate and Confectionery segment has plants in Hershey, Pa.; Oakdale, Calif.; and Smiths Falls, Ontario, Canada. In addition, this segment includes the H B. Reese Candy Company with its main production facility in Hershey, Pa., and Y & S Candies Inc , a manufacturer of licorice-type candies, with plants in Lancaster, Pa.; Moline, Ill ; Farmington, N M.; and Montreal, Quebec, Canada.

Friendly Ice Cream Corporation, headquartered in Wilbraham, Mass., operates more than 600 restaurants located primarily in the Northeast and Midwest, which serve high quality, moderately-priced menu items and specialize in ice cream, sandwiches, and informal meals. The pasta division manufactures in Lebanon, Pa. (San Giorgio); Omaha, Neb. (Skinner); and Louisville, Ky. (Delmonico); and Cory Food Services, Inc. is a Chicago-based provider of one of the nation's largest office coffee service plans.

The Corporation's principal executive offices are in Hershey, Pa. The Corporation had approximately 11,700 full-time employees and 18,417 stockholders on December 31, 1979.

ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting will be held at 2 p.m. on Monday, April 28, 1980, at the Hershey Motor Lodge and Convention Center, Route 322 and University Drive, in Hershey, Pa.

A formal notice of this meeting, together with a proxy statement, will be mailed to stockholders on or about March 21, 1980.

Stockholders who are unable to attend the meeting are urged to mark, sign, date and return their proxy card promptly so the stock of the Corporation will be represented as fully as possible at the meeting.

FORM 10-K

The Annual Report to the Securities and Exchange Commission on Form 10-K is available without charge upon written request to the Secretary of the Corporation, 100 Mansion Road East, Hershey, Pa 17033.

PRINCIPAL SECURITIES MARKET

The common stock is listed on the New York Stock Exchange.

EXECUTIVE OFFICES

100 Mansion Road East
Hershey, Pa. 17033
Phone: (717)534-4000

TRANSFER AGENT AND REGISTRAR

Manufacturers Hanover Trust Company
4 New York Plaza
New York, N Y. 10015

INDEPENDENT PUBLIC ACCOUNTANTS

Arthur Andersen & Co.
New York, N.Y

INVESTOR RELATIONS CONTACT

Kenneth L Wolfe, Treasurer
100 Mansion Road East
Hershey, Pa. 17033
Phone: (717) 534-4262

HERSHEY'S Reese's Y&S CORY San Giorgio SKINNER Friendly

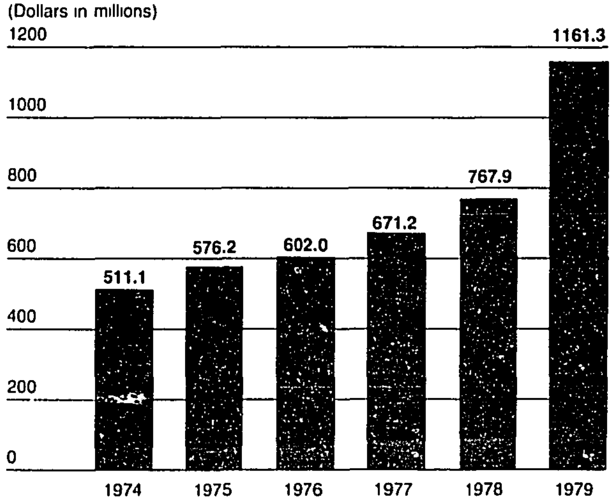
1979 Financial Highlights

(in thousands of dollars except per share amounts)

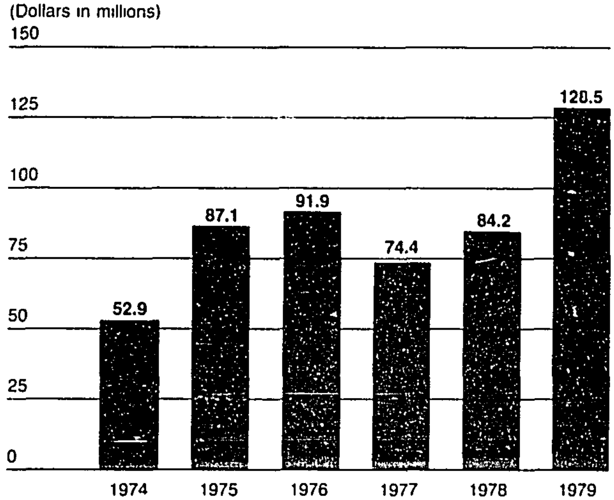
	1979	1978	% Change
Net sales	**$1,161,295**	$ 767,880	+51.2
Net income	**$ 53,504**	$ 41,456	+29.1
Net income per common share	**$ 3.78**	$ 3.02	+25.2
Dividends per common share	**$ 1.35**	$ 1.225	+10.2
Cash dividends paid	**$ 19,107**	$ 16,836	+13.5
Capital additions	**$ 56,437**	$ 37,425	+50.8
Stockholders' equity	**$ 320,730**	$ 284,389	+12.8
Equity per common share at year end	**$ 22.65**	$ 20.69	+ 9 5
Outstanding common shares at year end	**14,159,160**	13,745,269	—
Market prices of common stock— range during: First Quarter	**$ 21⅞–18⅛**	$ 21⅝–19	
Second Quarter	**$ 20 –17⅜**	$ 23½–21⅛	
Third Quarter	**$ 25½–19⅝**	$ 23⅛–21	
Fourth Quarter	**$ 26½–22**	$ 23¼–18½	

Quarterly dividends of 32½¢ per share for the first two quarters and 35¢ per share for the last two quarters were paid on common stock in 1979 compared with 30¢ per share for the first three quarters and 32½¢ per share for the fourth quarter in 1978.

NET SALES BY INDUSTRY SEGMENT
(Dollars in millions)



OPERATING PROFIT BY INDUSTRY SEGMENT
(Dollars in millions)



CHOCOLATE AND CONFECTIONERY   RESTAURANT OPERATIONS   OTHER FOOD PRODUCTS AND SERVICES

On behalf of the Board of Directors and all employees, we are proud to report that 1979 was one of the most outstanding years in the history of Hershey Foods Corporation. In short, we continued to make very substantial progress toward our basic objective of becoming a major, diversified, international food and food-related company.

- New records were set in both sales and earnings as we surpassed, for the first time, $1 billion in annual sales.
- Significant share-of-market gains were realized in our largest division, the Hershey Chocolate Company.
- Friendly Ice Cream Corporation and Skinner Macaroni Company joined our growing corporate family.
- Several new products were introduced successfully in the United States and Canada.
- A new technical center with combined facilities for our expanding research and development and engineering activities was opened.
- Our international activity was broadened, particularly in Brazil and Japan.

All the operating units of the Company shared in our 1979 growth. The major contributor was Hershey Chocolate Company, which had its best increase in dollar sales in 20 years. In fact, its increase in sales over 1978 exceeded the entire gain from 1960 to 1970. Every sales region and every class of trade had excellent sales growth. Every current confectionery brand exceeded last year's sales level.

Friendly scored solid gains in sales and earnings despite some falloff in business during the springtime energy crisis when many consumers changed their driving patterns due to gasoline shortages. The pasta group also continued to perform well, and, for the fourth consecutive year, San Giorgio and Skinner were the fastest growing brands in the industry. While their contributions were more modest, Hershey Chocolate of Canada and Cory Food Services did contribute to the overall sales and earnings records.

The international operations were shifted from a corporate staff function to full division status during the year. The most recent development in that division involves exclusive Agent-Importer, Trademark License and Technical Assistance Agreements with Fujiya Confectionery Co. Ltd., to import, manufacture and sell Hershey's products in the Japanese market.

THE OUTLOOK FOR 1980

Our increased emphasis on diversification and our ability to capitalize on the strengths of our traditional businesses have generated considerable momentum over the past four years, and we believe the results we are reporting to you now are an excellent indication of this Company's potential and its capabilities for continued growth in the future.

However, we are apprehensive concerning the current economic and political situation. Inflation, interest rates and energy shortages are among the factors that make the economic outlook for 1980 especially questionable to us. Costs of our major raw materials, on balance, continue to rise as do our costs of labor, transportation and packaging. We are especially concerned about recent, dramatic increases in sugar prices.

We believe the successes we have had in recent years provide just reason for us to stress growth within our existing businesses in 1980. While we continue our search for new opportunities that will help us meet our strategic objectives, we also plan to concentrate much of our effort on consolidating our current businesses to strengthen the Corporation as a whole.

This emphasis on growth within our existing business will require expanded production capacity, restaurant expansion and restaurant modification, as well as the expansion of our warehousing and distribution networks that must support this growth.

INFLATION

Of all the economic problems facing our country, we believe none is more critical than inflation. The business community is having considerable difficulty coping with the impact of inflation on the results of operations. After extensive research, the Financial Accounting Standards Board issued a statement in 1979 that requires supplemental presentation of certain financial data in an attempt to portray the effect of general price level changes. This supplementary data is included on pages 33 and 34. Although inflation accounting is extremely complex and the techniques are new, the information on those pages vividly shows that our income has been eroded when restated in terms of purchasing power of the dollar. This erosion is compounded since present tax laws do not allow deductions for the erosion of income because of inflation.

We believe there is a critical need for national monetary and fiscal policies designed to control inflation and provide a climate for capital formation.

OTHER CONCERNS

We are wary of the lack of a well-defined national energy policy, especially in light of the fact that a sizable share of this nation's mounting energy costs are externally controlled.

We remain concerned about bureaucratic restrictions which we believe have unnecessarily hampered growth and have increased costs of production and distribution to the disadvantage of the consumer.

It is our belief that, no matter how hard all of us work to make our businesses successful, we are fighting a losing battle unless the free enterprise system, with its incentives and rewards for productivity and top performance, remains intact. Free enterprise works, and we need to give it room to work.

CHANGES IN BOARD

There were three changes in the Corporation's Board of Directors in 1979. On April 30, Earl J. Spangler, President of the Hershey Chocolate Company, and Robert J. Gaudrault, Chairman and Chief Executive Officer of Friendly Ice Cream Corporation, were elected to the Board. On October 1, Samuel A. Schreckengaust, Jr., Vice President and General Counsel for the Corporation since 1976 and a member of the Board since 1971, retired from the Board upon reaching age 65.

Our employees at all levels continue to be among our most valuable assets, and their performance and loyalty have been a major factor in the successes of the past year. Likewise, we are fully confident that with their ongoing cooperation and diligence, combined with the support of our stockholders, suppliers and customers, the financial community, and consumers, Hershey Foods will continue to grow and prosper.

H. S. Mohler

Chairman of the Board

Vice Chairman of the Board
and Chief Executive Officer

President and Chief Operating Officer

March 5, 1980

Richard A. Zimmerman, President and Chief Operating Officer; Harold S. Mohler, Chairman of the Board; William E. Dearden, Vice Chairman and Chief Executive Officer

Industry Segment Information

The Company operates in three industry segments: Chocolate and Confectionery, Restaurant Operations and Other Food Products and Services. Operations in the Chocolate and Confectionery segment involve manufacture and sale of a full line of mass-distributed chocolate and confectionery products. The principal product groups sold are bar goods, bagged items, baking ingredients, chocolate drink mixes, and dessert toppings. The Restaurant Operations segment is engaged in the operation of more than 600 restaurants and the manufacture of certain items sold in those restaurants. The Other Food Products and Services operations are involved in the manufacture and sale of pasta products and the operation of a coffee service plan for businesses and institutions.

Sales by segment as reported in the Company's Consolidated Statements of Income and Retained Earnings do not include intersegment sales, since such sales are immaterial and have been eliminated in consolidation.

Operating profit is total revenue less operating expenses. In computing operating profit, none of the following items have been included: general corporate expenses, interest income (expense)-net, or income taxes.

Identifiable assets are those assets that are used in the Company's operations in each segment. Corporate assets are principally cash, marketable securities, and corporate property and equipment.

No customer, government or other entity, constitutes 10% or more of sales. Foreign sales and assets constitute less than 10% of total sales and assets.

	For the Years Ended December 31 (in thousands of dollars)					
	1979	1978	1977	1976 (unaudited)	1975 (unaudited)	1974 (unaudited)
Net sales:						
Chocolate and Confectionery	$ 822,813	$678,652	$586,882	$526,822	$503,263	$438,313
Restaurant Operations	224,072	—	—	—	—	—
Other Food Products and Services	114,410	89,228	84,345	75,138	72,902	72,770
Total net sales	$1,161,295	$767,880	$671,227	$601,960	$576,165	$511,083
Operating profit:						
Chocolate and Confectionery	$ 99,110	$ 79,143	$ 69,834	$ 86,898	$ 83,551	$ 50,269
Restaurant Operations	23,131	—	—	—	—	—
Other Food Products and Services	6,275	5,061	4,528	5,005	3,549	2,664
Total operating profit	128,516	84,204	74,362	91,903	87,100	52,933
General corporate expenses	(6,659)	(4,981)	(3,491)	(2,299)	(1,642)	(727)
Interest income (expense)—net	(17,764)	2,683	509	(357)	(1,264)	(2,279)
Income from continuing operations	104,093	81,906	71,380	89,247	84,194	49,927
Less:						
Income taxes	50,589	40,450	35,349	45,562	43,292	25,718
Discontinued operations	—	—	(5,300)	(1,112)	6,355	1,608
Net income	$ 53,504	$ 41,456	$ 41,331	$ 44,797	$ 34,547	$ 22,601
Identifiable assets:						
Chocolate and Confectionery	$ 302,764	$241,070	$221,928	$222,541	$217,772	$208,504
Restaurant Operations	206,936	—	—	—	—	—
Other Food Products and Services	79,062	50,450	47,023	44,325	44,152	45,142
Corporate	18,437	130,484	127,202	65,004	44,627	34,450
Total identifiable assets	$ 607,199	$422,004	$396,153	$331,870	$306,551	$288,096
Depreciation:						
Chocolate and Confectionery	$ 7,389	$ 6,574	$ 5,702	$ 5,439	$ 5,566	$ 5,538
Restaurant Operations	10,283	—	—	—	—	—
Other Food Products and Services	2,185	1,720	1,789	1,755	1,760	2,137
Corporate	658	556	504	345	215	253
Total depreciation	$ 20,515	$ 8,850	$ 7,995	$ 7,539	$ 7,541	$ 7,928
Capital additions:						
Chocolate and Confectionery	$ 29,472	$ 26,586	$ 22,381	$ 17,227	$ 8,489	$ 7,246
Restaurant Operations	20,965	—	—	—	—	—
Other Food Products and Services	2,233	4,420	3,014	1,754	1,995	2,884
Corporate	3,767	6,419	2,140	1,741	58	954
Total capital additions	$ 56,437	$ 37,425	$ 27,535	$ 20,722	$ 10,542	$ 11,084

EARL J. SPANGLER
President
Hershey Chocolate Company

Chocolate and Confectionery

	1979	1978
Sales (in millions)	**$822.8**	$678.7
% Change	+21.2	
Operating profit (in millions)	**$ 99.1**	$ 79.1
% Change	+25.3	

HERSHEY CHOCOLATE COMPANY

The year 1979 was an exceptionally good one for Hershey Chocolate Company. Both traditional and new products contributed to sales records in both tonnage and dollars and to notable market share gains for this, the largest unit of the Corporation. Operating profit, despite significant increases in raw materials costs, increased in 1979 to the highest level in the Company's history.

Tonnage growth was especially gratifying in light of inflation and higher prices for chocolate, confectionery, and grocery products. The market share gains were posted in nearly all major markets in which the Company competes.

The average cost of cocoa beans, major raw material of Hershey Chocolate Company, reached its highest level in 1979. This was the fourth consecutive year in which the cost of this commodity set a record.

Sugar continued to receive government support to protect domestic growers, and this resulted in higher sugar costs in 1979. In the latter part of 1979, world sugar prices increased significantly based on projections of a slight decline in world production. Milk prices also increased significantly in 1979.

A very poor California almond crop in the fall of 1978 caused a near doubling of almond prices in 1979. While the 1979 crop was excellent in California, poor crops in the remainder of the world kept almond prices from falling.

To offset these and other cost increases, prices of the Company's products were increased in 1979, and the normal retail price of the

standard Hershey bar rose from 20¢ to 25¢. All price increases throughout the year, however, were in compliance with the voluntary price guidelines of the President's Council on Wage and Price Stability. The strength of its consumer franchise enabled the Company to increase unit volume on the standard bar lines throughout the past year despite higher prices.

Sales of Hershey's Kisses, an old consumer favorite, vaulted to a new level in response to a national advertising program that began in the fall of 1978. Hershey's Miniatures, which are promoted jointly with Kisses, also enjoyed excellent growth. All major confectionery brands posted gains over 1978 with two exceptions, Rally and Candy Coated Peanuts which were discontinued to permit better employment of equipment and greater managerial attention to new products with a brighter future.

In April 1979, Y & S Candies, which was acquired in 1977, was integrated into the Hershey Chocolate Company with substantial savings in overhead. More importantly, by combining the excellent Y & S products with the selling, marketing, and distribution strengths of Hershey Chocolate Company, the prospects for long-term sales and earnings growth were greatly enhanced.

In the past two years, the U.S. confectionery market has become increasingly attractive to European confectionery companies. Their increased activity and continued intense competition from domestic

firms have made Hershey's market share gains especially significant.

New products were an important contributor to these gains in market share. Three products test marketed in prior years were placed into regular distribution in many areas of the country in 1979. Reese's Crunchy (Reese's Peanut Butter Cups with chopped peanuts); Whatchamacallit (a chocolate covered peanut flavored crisp bar); and Reese's Pieces (natural peanut flavored candy coated pieces) all made contributions to sales in excess of expectations and required major capital projects to increase production. Additional Whatchamacallit production capacity was added in the Hershey plant, and Reese's Pieces production was expanded to the Oakdale plant. The Reese plant also added major packaging line improvements to increase productivity and operation efficiencies.

Rolo (bite-size chewy caramel in milk chocolate), which completed national introduction in 1978, enjoyed excellent growth as it became a bonafide consumer favorite. After Eight (dark chocolate covered thin mints), a regionally-marketed product, continues to perform well in current marketing areas. Both are marketed under license from Rowntree Mackintosh.

Other products are in various stages of development and test market to assure continued future growth.

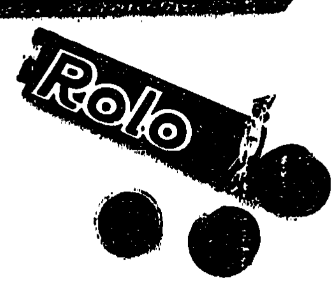
Brands introduced in the past three years have made a significant contribution to the Company's sales.

Reese's Peanut Butter Flavored Chips, Reese's Pieces, Whatchamacallit and several other new products still in the developmental stage are based on Hershey's internally-developed peanut butter flavored ingredient which reduces dependence on high-priced cocoa beans.

New products have also played a significant part in the diversification into the boxed chocolate/gift giving segment of the market. The Golden Almond line (a thick milk chocolate bar full of toasted whole almonds) successfully introduced in 1977, was expanded to include a single 3.2-ounce bar. A single 8-ounce Hershey's Kiss was developed and introduced in the first quarter and has rapidly become a popular gift item. A separate sales unit was established in June to concentrate on the specialty markets.

Sales of grocery products were up in total, but not all individual brands recorded gains. A new plastic dispenser bottle for Hershey's Syrup was developed and introduced to offer greater convenience to consumers and to strengthen the brand's position as a milk flavoring. Hershey's Cocoa benefitted from new advertising and promotion initiatives with the greatest annual increase in tonnage the brand has ever experienced. Another old standby, Hershey's Baking Chocolate, enjoyed an excellent tonnage gain and an even larger dollar gain. Consumers reacted favorably to the replacement of "Dark Chocolate Flavored Baking Chips," with "All Natural, Real Chocolate Chips," which was begun in the fall of 1978. This effort, supported by major increases in advertising and promotional programs, resulted in substantial sales and market share improvements.

Hershey's line of powdered drink mixes did not fare as well as market growth leveled, price



competition intensified, and brands proliferated—especially regional, private label, and generic products.

The Company's marketing program continues to place increasing emphasis on advertising and promotion. Expenditures were at record highs in 1979 to support many brands nationally and a number of others on a regional basis. This activity is believed to be a key contributor to the tonnage sales and share-of-market gains.

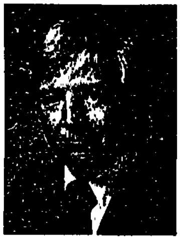
Energy conservation programs have been very effective in all manufacturing plants. The formal program began in 1976, and within two years, the target set by management had been surpassed. Additional improvement has been made in each succeeding year, and further improvements are planned for 1980.

HERSHEY CHOCOLATE OF CANADA

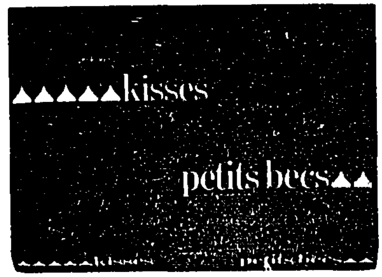
In 1979, Hershey Chocolate of Canada attained record sales and, more importantly, achieved improved profitability.

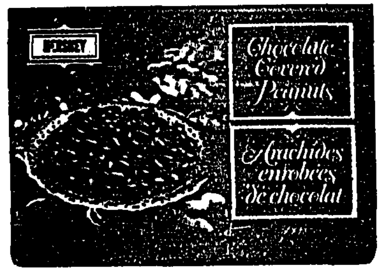
A major factor contributing to the improved results in 1979 was the successful integration of the Y & S Candies and Hershey operations in Canada, where all operating functions of both divisions were combined. This permitted Hershey Chocolate of Canada to spread its sales, marketing and administrative fixed overhead over a much broader volume base. In 1979 Y & S sales increased by 25% and additional production equipment is being installed to improve the efficiency and capacity of the Montreal plant.

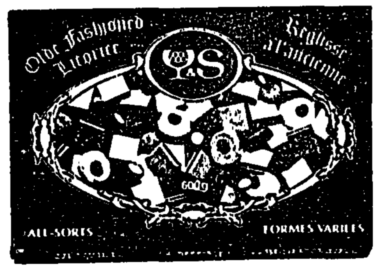
A further major reason for Canada's good 1979 results was an aggressive new products program. In the chocolate group, five major new lines were introduced in 1979 —Crunchy Peanut Butter Cups, a boxed Christmas line, the new Special Crisp bar, and a re-formu-



DAVID B. CONN
President
Hershey Chocolate of Canada







lated Almond bar. In the licorice group, a new boxed Y & S Allsorts line was introduced. New grocery products included Top Scotch, a butterscotch sundae topping. Hershey Instant was restaged with an improved formula and new packaging graphics.

Hershey Chocolate of Canada continues to comprise a modest portion of the overall sales of the Chocolate and Confectionery segment. However, in 1979, it began to implement increased consumer advertising. Success was clearly evident from 1979 results on Reese Peanut Butter Cups, which achieved outstanding sales growth and became one of the top ten bars in Canada. This is the first time in its history that the Canadian operation has had a "Top 10" entry in the chocolate bar market.

Although sales of most grocery products were higher than last year, heavy competitive pressures limited the sales of Hershey Instant, and Reese Peanut Butter Chips sales were below expectations. Thus, total grocery products' sales remained at last year's level.

As a result of strong cost pressures, chocolate bar prices were increased twice during 1979, and these bars now retail at 35¢. The prices of selected grocery and licorice products were also increased during 1979.

ROBERT J. GAUDRAULT
Chairman and Chief Executive Officer
Friendly Ice Cream Corporation

FRIENDLY ICE CREAM CORPORATION

The year 1979 was just one month old when Friendly Ice Cream Corporation officially joined Hershey Foods Corporation. Through the next eleven months, Friendly's sales and earnings set new records. This achievement is especially noteworthy because 1979 brought a series of events which tested the entire restaurant industry.

In the spring a shortage of gasoline dramatically changed driving habits. Then, when gasoline was again generally available, it cost considerably more. This continued to depress mobility and, thus, frequency of eating out. As inflation reached double-digit levels, the economy faltered and people altered their discretionary spending patterns further impact-

ing away-from-home eating.

Because of its strong regional consumer franchise, strategic price increases, and the efforts of its management, Friendly was able to maintain a good sales growth rate and end the year with sales well ahead of 1978.

To further improve its position in the restaurant business, Friendly instituted several programs. One involved tests of menu changes offering "super sandwiches" to perk up luncheons and "special" dinners for the evening trade.

A restaurant modification program in the Midwest, where interior and exterior decor, menu variety and service systems were upgraded, and advertising programs stressing the theme "You're in for a nice surprise," helped increase sales significantly.

In the New England area, stepped-up advertising and coupon programs generated higher sales. To increase consumer awareness of the Friendly name in the New York metropolitan area, consumer advertising was instituted with a positive effect on sales.

In addition to an on-going restaurant modification program and to provide the basis for more growth, Friendly developed eleven new free standing Family Restaurants and two new mall restaurants that were opened in 1979. At the end of the year, there were more than 600 Friendly restaurants in operation. All units are company operated; none are franchised.

Operating margins were approximately the same in 1979 as they were in 1978 because price increases largely offset increased costs.

Restaurant Operations

	1979*
Sales (in millions)	$224.1
Operating profit (in millions)	$ 23.1

*11 months' operations

By supplying its restaurants from its own processing plants in Wilbraham, Massachusetts, and Troy, Ohio, Friendly is better able to maintain the high levels of quality of its products upon which its reputation has been built. To provide for future growth, an additional warehouse was added to the Wilbraham complex, and a 60% expansion of its freezer capacity was begun in 1979 and is expected to be completed in March of 1980.

LLOYD E. SKINNER
Chairman, San Giorgio Macaroni Company and Skinner Macaroni Company

JOSEPH P. VIVIANO
President and Chief Executive Officer
San Giorgio Macaroni Company and Skinner Macaroni Company

SAN GIORGIO AND SKINNER

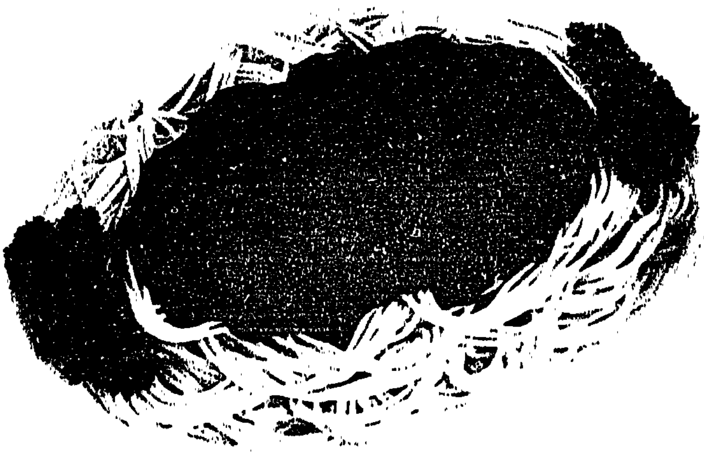
In 1979 the Hershey Foods' pasta division, with its San Giorgio, Skinner, Delmonico and P&R brands, achieved real growth greater than any other company in the industry. This increase in market share is particularly notable because it came at a time when the industry as a whole was experiencing its largest tonnage and dollar sales growth in over a decade.

Skinner Macaroni Company joined the Hershey group on January 3, 1979, and quickly took its place alongside San Giorgio to give Hershey two rapidly growing brands in the industry. This leadership in growth was achieved despite increased competitive activity as other major brands moved to expand their marketing areas. In the meantime, the character of the industry continues to change as more and more of the smaller, family-owned pasta firms are merged with larger corporations.

San Giorgio's Light 'n Fluffy egg noodles were first introduced in selected areas in 1978. As production permitted, they were introduced into additional major market areas with outstanding acceptance. By the end of 1979, this product ranked as a solid member of the San Giorgio line.

Pasta is made from flour milled from durum wheat, a specialized wheat grown almost exclusively in North Dakota. Although the supply of this wheat was adequate during 1979, its price increased more than 60% during the year forcing two general price increases. Even with these higher durum wheat costs, which are expected to continue, pasta still offers an excellent consumer value which can be particularly appealing when family food budgets are strained.

Because of the outstanding unit growth in recent years, expansion programs are under way in both the Omaha and Louisville manufacturing and warehousing facilities.



GEORGE E. WILBER, JR.
President
Cory Food Services, Inc.

Other Food Products and Services

	1979	1978
Sales (in millions)	**$114.4**	$ 89.2
% Change	+28.3	
Operating profit (in millions)	**$ 6.3**	$ 5.1
% Change	+23.5	

CORY FOOD SERVICES

Cory's operating profit was up substantially, even though sales were below the previous year because of its withdrawal from the consumer products market and the disposition of its manufacturing operations.

Green coffee bean prices declined early in 1979 to a low of $1.25 per pound. A freeze in the coffee-growing area of Brazil late in May sent prices up to a level of about $2.00 per pound where they remained.

This 60% increase in coffee prices meant several increases by Cory in the price it charged for the coffee kits supplied to its coffee service customers. Nevertheless, Cory was able to increase both its customer base and the number of coffee kits sold.

One of the sources of new customers was a new National Account Program whereby large companies with locations across the country are offered Cory coffee service for their branches on a corporate account basis.

Cory commissioned a major market study of the coffee service industry in early 1979. The results have provided a wealth of detailed information to guide future sales and marketing programs. Two conclusions of interest were that Cory is number one in the coffee service business with the largest market share, and that Cory's account turnover is lower than the industry average.

With the dual goal of improving coffee kit delivery service to customers, and conserving energy, Cory tested and ultimately converted to delivery by a commercial service rather than by its own employees. Cory also absorbed the delivery charge which was formerly paid by its customers.

Cory's 1979 results were especially strong in Canada, where record sales, account growth, and operating income were achieved.

In pursuit of its goal to become a major international food and food-related company, Hershey Foods Corporation has developed a long-term strategic plan. The acquisitions of Y & S Candies, Procino-Rossi, Skinner Macaroni, and Friendly represent significant evidence of progress under this plan. Other areas that relate to the realization of this goal include the international marketplace, science and technology, facilities planning, agricultural research and development, and human resources.

INTERNATIONAL

Although overall sales and earnings from international operations remain modest in comparison with the Corporation's total performance, results in 1979 expanded appreciably over the previous year. Progress to date has been gratifying. A pattern of international business development has been established to provide a solid base for further growth in the 1980's.

In developing and expanding overseas markets, the Corporation's policy has been to form close associations with partners who have strong, well-established businesses and knowledge of local market conditions. This joint venture approach continues to be a key vehicle for the extension of the Corporation's international investment activities.

In 1979, Hershey entered into exclusive Agent-Importer, Trademark License and Technical Assistance Agreements with Fujiya Confectionery Company Ltd. of Tokyo to import, manufacture, and sell Hershey's products in the Japanese market. Fujiya was established in 1910 and today is a leading manufacturer of chocolate and confectionery products, snack foods, beverages, ice cream and bakery products. It also has substantial restaurant operations. This new arrangement already has led to a substantial increase in the Corporation's export sales of finished product and bulk items to Japan.

In Mexico, Nacional de Dulces S.A. showed excellent progress in sales and earnings and again improved its overall market position. A new manufacturing plant is being constructed to increase capacity so as to meet the consumer demand for our products in Mexico.

Chadler Industrial da Bahia S.A. in Brazil contributed higher earnings despite difficult economic conditions that led to a 30% cruzeiro devaluation in December. Also in Brazil, the Corporation's new joint venture with S.A. Industrias Reunidas F. Matarazzo in biscuit, pasta and margarine product lines got underway and steadily improved its overall performance.

In Sweden, AB Marabou completed the acquisition of Göteborgs Kex, Sweden's leading cookie and cracker producer, and, as a result, showed an improvement in its contribution to Hershey's earnings.

The Corporation's licensee in the Philippines has obtained approval for an integrated agricultural and industrial cocoa bean processing project and has also acquired a significant financial interest in one of the country's leading chocolate and confectionery companies. As a result, the terms and conditions of Hershey's trademark, know-how and technical assistance licensing agreement have been revised, and the agreement is being submitted to the Philippine Board of Investments for approval.

In the U.S. market, Hershey has been working closely with three important European manufacturers of chocolate and confectionery products: Rowntree Mackintosh of York, England for the sales and/or manufacture of Kit Kat, Rolo and After Eight; P. Ferrero of Alba, Italy with respect to the test marketing of its Kinder line; and Bassett's of

Great Britain regarding the importation and distribution of certain high quality licorice products.

In 1979 export sales of finished product and bulk items increased substantially over 1978. This expanded line of international business activity continues to develop positively.

While Hershey's efforts to diversify and develop its investments and commercial activities abroad are continuing, the Corporation is devoting considerable effort to provide direction and support to current, affiliated companies and markets.

RESEARCH & DEVELOPMENT

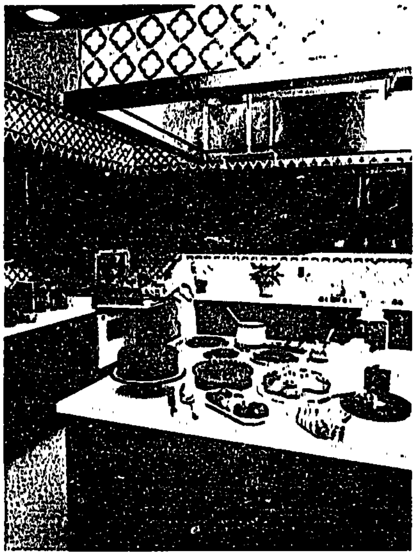
Technical Center

The Company's Technical Center, dedicated on November 7, 1979, provides Hershey with what it considers to be the most complete, most advanced research facility in the U.S. confectionery industry. The Science and Technology Department, which occupies this facility, represents a major investment in the future and already has yielded significant dividends in the form of new products.

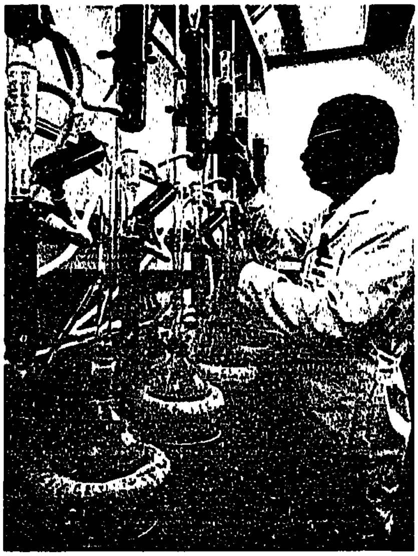
Numerous charges are now being leveled against the U.S. food industry. They include objections to certain aspects of growing, processing and distributing; the demand for proof that the benefits of certain ingredients or processes are substantial; the demand for detailed identification of ingredients through more explicit labeling; and the increasingly adversary nature of the governmental regulatory process.

There is a need to answer these challenges with facts determined from internal research as well as that from outside sources. One special feature of the Technical Center is its animal research facility, which is proving to be important in the re-examination of traditional ingredients as well as the testing of new ingredients and products. Animal feeding studies have such a large number of variables that the Corporation must have the capability to conduct certain

Technical Center lobby



The Technical Center's chocolate and cocoa test kitchen



Basic research in vegetable oils

Animal testing facilities

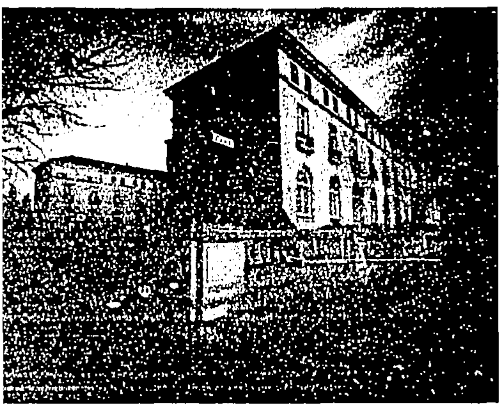
types of animal research on its own premises. Another significant feature is the pilot plant, where new equipment and new processing techniques are studied.

FACILITIES PLANNING

As the Corporation develops new products, adds new lines and employs more people, there will be continued need for new facilities. The research and planning for these facilities is carried out by the operating divisions in cooperation with the Science and Technology Department.

The need for more manufacturing space, to meet the demand for new and traditional products, brings with it a need to study national demographic patterns to determine the best potential plant locations in relation to markets, state and local tax structures and the availability of raw materials, labor and transportation.

As new facilities are planned and current ones redesigned, one primary consideration is efficient energy utilization. The Corporation has made significant progress in energy conservation and, with the Technical Center's experimental solar heating system, first hand knowledge is being obtained to help the Corporation assess prevailing terrain and weather conditions as a means of conserving and generating energy in connection with the design of new facilities.



Former Community Building, soon to become a corporate office building

As the Company grows and diversifies, there is a need for increasing corporate staff to deal with today's complex business environment. In order to properly house this expanding staff and free space for Hershey Chocolate Company's administrative staff, the Corporation acquired the nearby Hershey Community Center Building from Hershey Trust Company, trustee for Milton Hershey School, on December 28, 1979. Portions of the building had been rented by Hershey Foods previously for office space and the employee physical fitness program. Most of the building will be renovated for office space beginning mid-1980 upon completion of engineering and design studies. Initially 200 employees will occupy the building. Ultimately the number will reach a maximum of 400 employees. Every effort will be made to preserve the original design and character of this unique landmark.

AGRIBUSINESS

The Corporation's Agribusiness Department, a branch of the Science and Technology Department, has been working to dispel numerous myths about cocoa growing. In addressing many of these misconceptions, Hershey is attempting to demonstrate to farmers that cocoa can be grown profitably on a larger scale.

Historically cocoa has been primarily a small farmer crop. Plantation-type farmers have avoided cocoa because they considered it unsuitable for mechanization and, therefore, too labor intensive.

Through demonstration farms in Belize and Costa Rica, Hershey's Agribusiness Department is proving that modern organizational and production methods can be successfully applied to cocoa. They are showing that mechanization can be used to a much greater extent than traditionally thought possible. They are also showing operators of all size farms that profitability can be improved through better agronomic practices.

Top: cocoa tree seedlings in Belize nursery

Bottom: young cocoa trees removed from nursery for field planting

The Corporation is working with chemical suppliers to develop newer, more specific methods of disease and pest control in cocoa trees, and with host country governments to develop new, improved hybrid cocoa seedlings at local agricultural research stations. The Belize operation has a meteorological station to monitor and more fully explore the effect of weather variations on cocoa growing.

Other groups within the Science and Technology Department

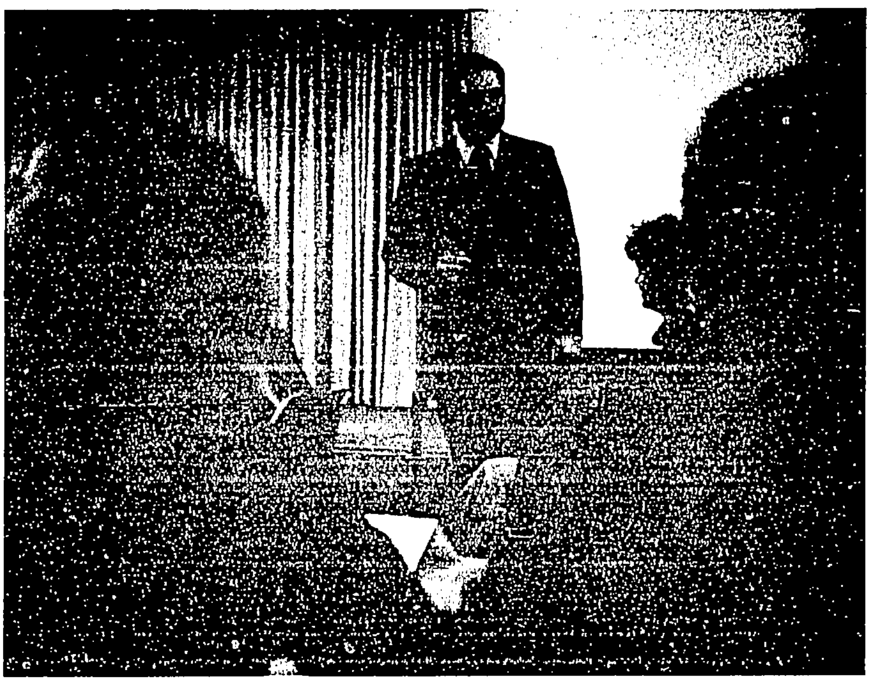
are able to capitalize on these farms as laboratories for experiments in fermentation and drying of cocoa beans.

HUMAN RESOURCES

The Corporation recognizes that its continued growth is dependent upon its ability to effectively manage its human resources. Aggressive programs to reinforce a productive relationship with employees are in operation and will be expanded in the future. The goal is to create a challenging, but satisfying, work environment and to provide employees with the opportunity to contribute and share in the future success of the Corporation.

Important active programs include:

- The introduction of a Service Awards Program, which recognizes employee years of service with the Corporation. This program utilizes a variety of awards and methods of presentation, and is intended to stress recognition and appreciation of the individual.
- The introduction of a systematic human resources planning and organizational review process, which will improve the Corporation's ability to project future organizational needs and human resource requirements, and plan for meeting these projections.
- The continued implementation of a formalized Performance Appraisal System which will assist in linking planning to actions, rewards and results, and identifying individual development needs.
- Recognizing that training is key to employee development, the Corporation substantially expanded the numbers and types of in-house training workshops that are available to assist employees to improve their skills. Major emphasis in this area is currently taking place through corporate programs and within the Friendly Ice Cream Corporation.
- The continuing and systematic reevaluation of benefit plan adequacy and cost and the introduction of benefit changes at certain locations as required. It is the intent of the Corporation to have a competitive, cost effective benefit program that meets basic employee needs. Of special note is the recent improvement in the pension benefits of those retirees who have been retired for several years, and who have been most seriously affected by inflation.



Performance appraisal training session

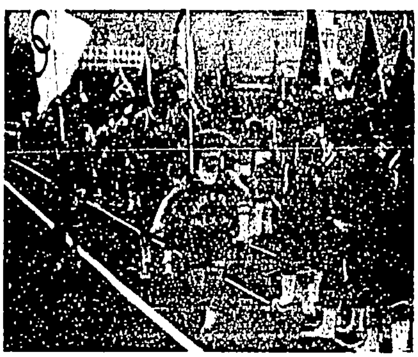
Executive Changes

On June 5, Charles A. Smylie was elected Vice President, Administration. Previously he was with Y & S Candies for 32 years and served as its President since 1965.

On October 1, Samuel A. Schreckengaust, Jr. was named Of Counsel to serve as an advisor and counselor to the Law Department with direct responsibility for various corporate legal matters. On the same date Charles E. Duroni was elected to succeed him as Vice President and General Counsel. Mr. Duroni had joined the Corporation in 1977 as Senior Associate Counsel.

Effective January 1, 1980, Lloyd E. Skinner, Chairman of the Skinner Macaroni Company, was named also Chairman of San Giorgio. On the same date Joseph P. Viviano, President and Chief Executive Officer of San Giorgio, was named also President and Chief Executive Officer of Skinner.

HERSHEY'S NATIONAL TRACK & FIELD YOUTH PROGRAM



MORE THAN A TRACK MEET

Hershey's National Track and Field Youth Program is an outgrowth of a local track and field meet which was initiated by Dr. Donald P. Cohen, President of the Board of Governors, National Track and Field Hall of Fame, in Charleston, West Virginia, in 1975. Since that time, the program has grown steadily and is now the largest of its kind in the country.

One of the reasons for this growth and acceptance is that the Hershey program is more than a track meet. It emphasizes the friendship, sportsmanship, and physical exercise aspects of track and field as much as, if not more than, competition.

Equally important, the participants receive coaching in the fundamentals of track and field. For some participants, the program offers an opportunity to refine their natural abilities. For others, the program may supply the spark that ignites their interest in an activity that is mentally, physically, and socially rewarding.

The 1975 meet brought 500 Charleston youngsters together, and in 1976, the program expanded to all parts of West Virginia. In 1977, Hershey Foods Corporation became involved by agreeing to sponsor a test event which covered ten southeastern states. That same year the National Recreation and Park Association and the President's Council on Physical Fitness and Sports joined forces with the National Track and Field Hall of Fame and Hershey.

The program was expanded nationally in 1978, and today it reaches millions of boys and girls in all 50 states and the District of Columbia.

Rafer Johnson, former Olympic decathlon champion, serves as the program's national coordinator and grand marshal of the National Finals. In late spring and early summer, he travels across the country to encourage participation and to attend various state meets.

His rapport with the participating boys and girls is one of the most inspiring aspects of the program. Hershey is proud to be associated with one of the most articulate and socially conscious athletes of our time.

Hershey's National Track and Field Youth Program is designed for the novice and beginner in track and field. Conducted on a grass roots level under the supervision of the National Recreation and Park Association, the program is open to virtually every girl and boy between the ages of 10 and 15 in the country who has not lettered in track and field or who does not belong to an organized track and field club. Spiked track shoes are prohibited. Only short pants and tennis shoes are needed.

The program begins every spring when local parks and recreation departments in thousands of cities and towns arrange qualifying trials for girls and boys in their respective communities. These local meets are one of the most important aspects of the program because they attract and introduce participants to the program.

Local winners advance to district meets which are held in late May and early June. Winners in the district meets compete in state finals held in June and early July in centrally located communities. State winners are eligible for selection (based on competitive score comparison) to regional teams which receive all-expense-paid trips to the program's National Finals held in August in Charleston, West Virginia. Each state is guaranteed at least five positions on its regional team.

All local, district and national meets conducted in the Hershey program have the following events: 50-meter dash, 100-meter dash,

200-meter dash, 400-meter run, 4x100-meter relay, softball throw, 800-meter run, 1500-meter run and standing long jump.

Activities surrounding the August Finals in Charleston encompass four days. They include a trip to a local amusement park, a disco dance, movies, and autograph sessions with grand marshal Rafer Johnson and guest athletes such as Artis Gilmore, of the Chicago Bulls. Awards and trophies are presented at the Saturday night banquet.

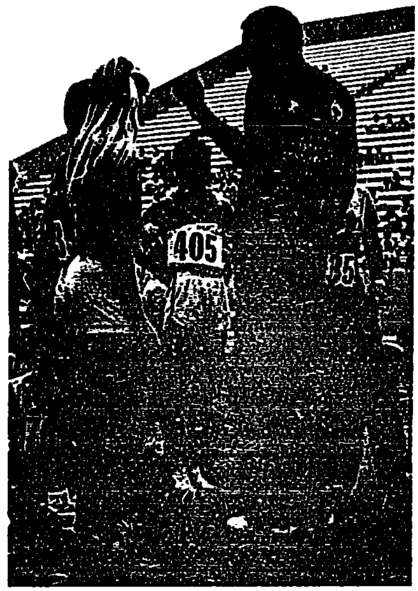
While this series of events provides a total social growth opportunity, ultimately everyone's attention focuses on the track and field events. The youngsters loosen up and practice on the Marshall University track Friday afternoon. Actual competition is held Saturday at Charleston's Laidley Field, the modern track and stadium complex adjacent to the future site of the National Track and Field Hall of Fame.

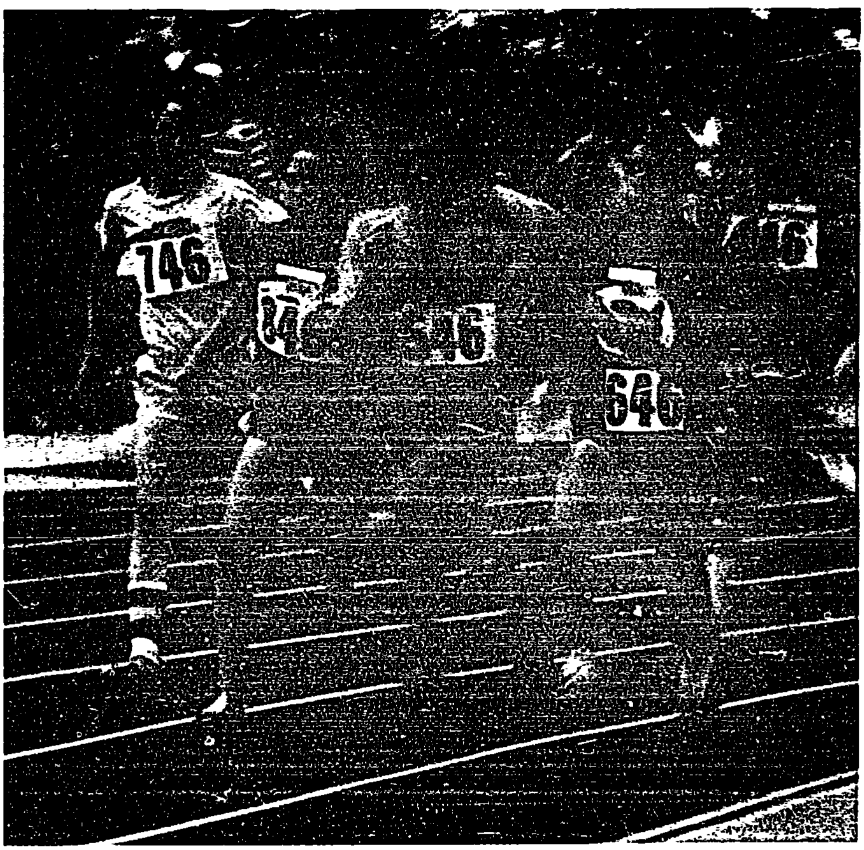
The track and field events are preceded by a colorful opening ceremony which features the participants, local and state dignitaries, celebrity athletes, athletes recently inducted into the National Track and Field Hall of Fame, and representatives of all affiliated organizations.

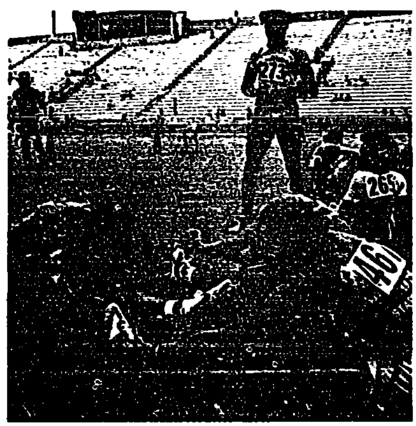
The competition that follows the ceremony is intense but friendly. It is not uncommon to see the runner-up and winner of many events embracing and exchanging home addresses.

Hershey's sponsorship of the Hershey's National Track and Field Youth program is an expression of the Corporation's dedication to the future well-being of the nation's young people. It recognizes the opportunity to provide American youth with a wholesome, recreational activity stressing fun, participation and sportsmanship in addition to competition.

Because of Milton Hershey's great interest in young people, we believe he would be especially pleased with this program.







The following comments relate to the current two-year comparative results of operations as well as the six-year financial summaries contained on pages 4 and 35.

During the five years ended December 31, 1979, the Company experienced continued growth in consolidated net sales. Net income increased when compared with the prior year for each of the five years presented, with the exception of net income in 1977 which decreased because of a deterioration in gross margins resulting from the then unprecedented high level of cocoa bean costs and lower unit volume during this period.

1979 COMPARED WITH 1978

Consolidated net sales set a record in 1979 of $1,161.3 million of which $224.1 million related to the net sales of Friendly Ice Cream Corporation acquired early in 1979. Of the remaining increase the Chocolate and Confectionery segment had a sales increase of $144.1 million or 21.2%. This increase is attributable both to higher selling prices and increased unit volume. The Other Food Products and Services segment had a sales increase of $25.2 million or 28.3% aided primarily by the 1979 acquisition of Skinner Macaroni Company, although the existing pasta business in this segment increased in both unit volume and selling prices over 1978 levels. Cory sales were below the previous year because of the disposition of its manufacturing operations.

Cost of sales increased $295.1 million or 52.7% to $855.3 million. Costs of virtually all major raw materials continued to increase in 1979. Slightly lower profit margins resulted in 1979 compared with 1978; however, businesses exclusive of the restaurant operations had a slight increase in profit margins.

Selling, administrative and general expenses increased $55.7 million or 43.3% in 1979 compared with 1978. Advertising, promotion and other direct brand expenses amounted to approximately $24.1 million of the increase with the remainder the result of including Friendly and Skinner expenses as well as the impact of the general inflation rate on all other costs.

The issuance in March 1979, of $75 million of 9½% Sinking Fund Debentures, along with the debt assumed in the Friendly acquisition and working capital borrowings, resulted in interest expense of $17.8 million in 1979. In 1978 the Company had interest income of $2.7 million.

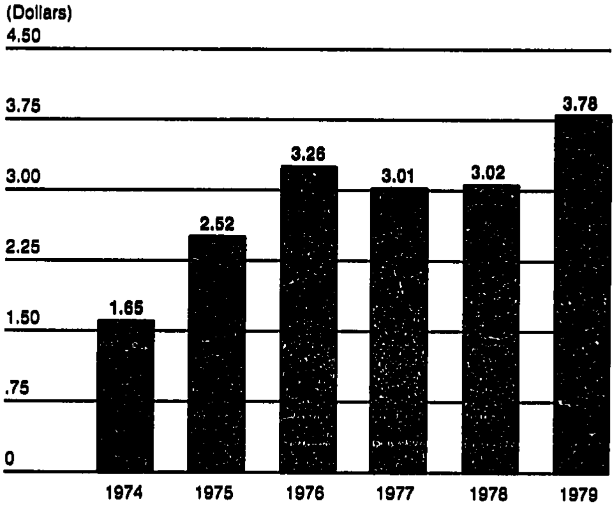
Net income for 1979 was $53.5 million or $3.78 per share compared with $41.5 million or $3.02 per share in 1978. The increase of 29.1% reflects increased earnings of the existing businesses and the results of the Friendly and Skinner acquisitions.

Inventories increased by $40.5 million at the end of 1979 compared with 1978. Of this increase, Friendly inventories amounted to $13.5 million. The remaining increase is primarily the result of higher levels of Chocolate and Confectionery inventory to support expanded distribution of new products as well as higher sales levels of existing products.

Long-term debt increased by $92.3 million at the end of 1979 compared with 1978 primarily because of the issuance of $75 million of 9½% Sinking Fund Debentures to finance a portion of the acquisition of Friendly Ice

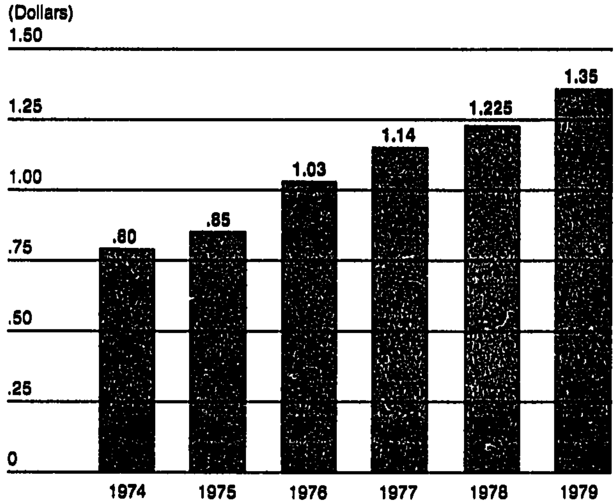
NET INCOME PER COMMON SHARE

(Dollars)



DIVIDENDS PER COMMON SHARE

(Dollars)



Cream Corporation. In addition, the Company issued $20 million of 8.7% Senior Notes in exchange for similar notes issued by Friendly in 1977.

1978 COMPARED WITH 1977

Consolidated net sales increased by $96.7 million or 14.4% to $767.9 million compared with 1977. While the Chocolate and Confectionery segment sales increase of 15.6% was attributable to increases in both unit volume and prices, higher prices accounted for the major portion of the sales increase. Sales of the Other Food Products and Services segment increased 5.8% primarily as a result of increases in unit volume. This rate of sales increase was less than the 12.3% increase achieved in the prior year primarily because Cory Food Services, Inc. reduced selling prices as a result of lower green coffee costs.

Raw material costs, principally cocoa beans, remained substantially above the average for recent years. The Company, however, was able to maintain its profit margins in 1978 by price increases implemented in late 1977 and 1978 to offset these higher costs. In addition, in November 1978, the Hershey Chocolate Company announced increased prices on many items and increased weights and prices on its standard bars. As a result, these bars which sold in most retail outlets for 20¢ now sell for 25¢. Shipping expenses increased $4.1 million or 14.2% primarily because of higher shipping rates in 1978.

Selling, administrative and general expenses increased $18 million or 16.3% in 1978 compared with 1977, reflecting an increase of $11.3 million for advertising, promotion and other direct brand expenses as well as the effect of general inflation on other costs during 1978. Also, a provision of approximately $2 million was made for the disposition of the equipment division of Cory.

As a result of the Company's strong cash position and rising interest rates, interest income, net of interest expense, was $2.7 million in 1978 compared with $.5 million in 1977.

Net income for 1978 was $41.5 million or $3.02 per share compared with $41.3 million in 1977 or $3.01 per share. Income from continuing operations was $41.5 million or $3.02 per share compared with $36 million or $2.62 per share in 1977. This increase in income from continuing operations of 15.1% represented a significant improvement over the prior year primarily because of increased sales and stable profit margin percentages.

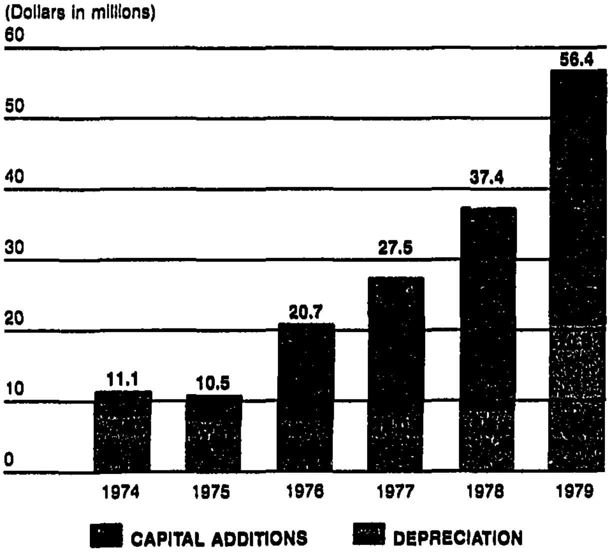
PRIOR YEARS

The sales increase in 1977 compared with 1976 was primarily the result of increased selling prices announced in December 1976. Actual unit volume decreased slightly in 1977. Costs of all major raw materials, except sugar, were higher in 1977 compared with 1976. These increases together with diminished unit sales, resulted in a decline in income from continuing operations.

During 1977, the Company reduced inventory quantities, primarily cocoa beans, resulting in a liquidation of LIFO inventory quantities. The effect of this liquidation decreased cost of sales by approximately $8.5 million and increased net income by approximately $4 million or $.29 per share.

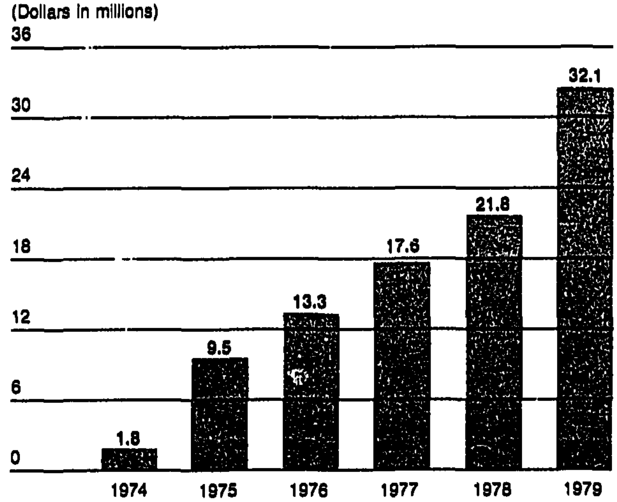
CAPITAL ADDITIONS AND DEPRECIATION

(Dollars in millions)



ADVERTISING

(Dollars in millions)



Net income for 1977 reflects a gain of $5.3 million after tax or $.39 per share on the sale of the real estate and operating equipment of the Company's almond ranch subsidiary.

Sales increased in 1976 compared with 1975 primarily because of an increase in consumer units sold. The Hershey Chocolate Company decreased selling prices and increased bar weights on selected items in early 1976. In December, 1976, the weight and prices of its standard bars were increased. Cocoa bean market prices escalated in 1976 while sugar prices declined compared with 1975. Nevertheless, the costs in 1976 for cocoa beans as well as sugar were less than in 1975.

Sales dollars of chocolate and confectionery products increased substantially, reflecting higher average selling prices in 1975 compared with 1974. There was also an increase in volume of consumer units sold in 1975 compared with 1974. However, the actual poundage sold in 1975 declined as a result of lower average bar weights of many of the chocolate and confectionery items. The Company experienced then unprecedented escalation in virtually all raw material costs throughout 1974 and 1975. The most significant increases were incurred in sugar and cocoa beans for chocolate and confectionery products. Although market prices of cocoa beans and sugar receded in 1975 compared with the highs of 1974, the Company's average annual costs of these commodities were higher in 1975 than in 1974. In the case of Other Food Products and Services, a significant cost increase was incurred for coffee, while the cost of flour used in pasta products declined in 1975 compared with 1974.

The operations of one of the Company's subsidiaries, Portion Control Industries, Inc., were discontinued in 1975. Losses from this operation were $1.4 million in 1975 and $2.3 million in 1974. In addition, the loss on disposal of this business was $4.9 million.

CAPITAL ADDITIONS

Capital additions in 1979 amounted to $56.4 million including $1.4 million of capitalized leases. Depreciation expense and amortization of leasehold improvements and capitalized leases for the year amounted to $20.5 million. Capital additions, excluding Friendly for all but 1979, amounted to $152.7 million during the past five years.

DIVIDENDS

In August 1979, the quarterly dividend was increased by the Board of Directors from $.325 to $.35. This represents the fifth consecutive year of dividend increases for the stockholders.

The Company completed its 50th year of uninterrupted dividends with the payment on December 14, 1979 of its 200th consecutive quarterly dividend on the common stock. Cash dividends paid on the Company's common stock were $19.1 million in 1979 and $16.8 million in 1978. Dividends paid per common share on the Company's common stock were $1.35 in 1979.

Investor Information

STOCK MARKET DATA

Hershey Foods Corporation had 18,417 stockholders at year-end 1979, with a total of 14,159,160 common shares outstanding. There is no other class of stock outstanding.

The common stock is listed and traded principally on the New York Stock Exchange under the symbol HSY. Approximately 1,600,000 shares of the Company's common stock were traded on the Exchange during 1979, or approximately 22% of the listed shares available. The closing price of the common stock on the New York Stock Exchange on December 31, 1979 was $24.625.

The Company's common stock price range and dividends per share by quarter for the last two years appear on page 1.

AUTOMATIC DIVIDEND REINVESTMENT SERVICE

Stockholders may take advantage of an automatic dividend reinvestment service offered through Manufacturers Hanover Trust Company. Quarterly common stock dividends are automatically reinvested in Hershey common stock, and optional cash investments may be made for the purchase of additional shares. A brochure describing this service is available from the Company's Investor Relations Department in Hershey and from the Dividend Reinvestment Department of Manufacturers Hanover Trust Company, P.O. Box 24850, Church Street Station, New York, N.Y. 10242.

INVESTOR SERVICES

The Corporation has an Investor Relations function in Hershey. Requests for interim and annual reports, or for more information about the Company, should be directed to the Investor Relations Department, 100 Mansion Road East, Hershey, Pa. 17033.

Consolidated Statements of Income and Retained Earnings

(in thousands of dollars except per share amounts)

	For the Years Ended December 31	
	1979 (Note 2)	1978
Net Sales	**$1,161,295**	$ 767,880
Costs and Expenses:		
Cost of sales	**855,252**	560,137
Selling, administrative and general	**184,186**	128,520
Total costs and expenses	**1,039,438**	688,657
Income from Operations	**121,857**	79,223
Interest expense (income)—net	**17,764**	(2,683)
Income before Taxes	**104,093**	81,906
Provision for income taxes (Note 3)	**50,589**	40,450
Net Income	**53,504**	41,456
Retained Earnings at January 1	**268,475**	243,855
Adjustment for Pooled Company (Note 2)	**1,444**	—
Less—Cash Dividends	**19,107**	16,836
Retained Earnings at December 31	**$ 304,316**	$ 268,475
Net Income per Common Share (Note 1)	**$ 3.78**	$ 3.02
Cash Dividends per Common Share	**$ 1.35**	$ 1.225

The accompanying notes are an integral part of these statements

Consolidated Balance Sheets

(in thousands of dollars)

	December 31	
	1979 (Note 2)	1978
ASSETS		
Current Assets:		
Cash and short-term investments	**$ 17,185**	$111,756
Accounts receivable—trade (less allowances for doubtful accounts of $1,351 and $1,322)	**37,423**	31,787
Inventories (Note 1):		
Raw materials	**29,317**	28,071
Goods in process	**9,886**	6,154
Finished goods	**66,875**	31,386
	106,078	65,611
Other current assets	**9,564**	7,505
Total current assets	**170,250**	216,659
Property, Plant and Equipment, at cost:		
Land	**40,610**	4,226
Buildings	**130,268**	76,190
Machinery and equipment	**275,630**	184,845
Capitalized leases	**16,237**	—
	462,745	265,261
Less—accumulated depreciation and amortization	**113,480**	94,481
	349,265	170,780
Excess of Cost Over Net Assets of Businesses Acquired (Notes 1 and 2)	**56,516**	18,056
Other Assets:		
Investments	**19,005**	10,295
Other assets and deferred charges	**12,163**	6,214
	31,168	16,509
	$607,199	$422,004

	December 31 1979 (Note 2)	1978
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	**$ 51,636**	$ 43,696
Accrued liabilities	**36,208**	20,855
Income taxes payable	**7,546**	9,864
Current portion of long-term debt and lease obligations	**8,436**	—
Total current liabilities	**103,826**	74,415
Long-Term Debt (Note 5)	**127,886**	35,540
Long-Term Lease Obligations (Note 7)	**15,814**	—
Deferred Income Taxes (Notes 1 and 3)	**38,943**	27,660
Stockholders' Equity		
Common stock, without par value (stated value $1 per share)—authorized 20,000,000 shares, outstanding 14,159,160 and 13,745,269 shares	**14,159**	13,745
Additional paid-in capital	**2,255**	2,169
Retained earnings	**304,316**	268,475
Total stockholders' equity	**320,730**	284,389
	$607,199	$422,004

The accompanying notes are an integral part of these balance sheets.

Consolidated Statements of Changes in Financial Position

(in thousands of dollars)

	For the Years Ended December 31	
	1979 (Note 2)	**1978**
Financial Resources Provided		
Net income	**$ 53,504**	$ 41,456
Depreciation and amortization	**21,568**	8,850
Deferred income taxes	**11,283**	3,764
Resources provided from operations	**86,355**	54,070
Increase in long-term debt	**75,000**	7,000
Other	**431**	482
Total resources provided	**161,786**	61,552
Financial Resources Applied		
Capital additions	**56,437**	37,425
Cash dividends	**19,107**	16,836
Increase in investments	**8,710**	2,200
Reduction in long-term debt	**7,600**	900
Acquisition of Friendly Ice Cream Corporation (net of working capital acquired of $18,248) represented by—		
Property, plant and equipment	**141,494**	—
Other assets	**2,500**	—
Long-term debt assumed	**(38,031)**	—
Excess of cost over net assets acquired	**39,789**	—
	145,752	—
Total resources applied	**237,606**	57,361
Increase (Decrease) in Working Capital	**$ (75,820)**	$ 4,191
Increase (Decrease) in Working Capital		
Cash and short-term investments	**$ (94,571)**	$ (5,482)
Receivables	**5,636**	(3,969)
Inventories	**40,467**	3,661
Other current assets	**2,059**	1,247
Accounts payable	**(7,940)**	11,954
Accrued liabilities	**(15,353)**	(6,701)
Income taxes payable	**2,318**	3,481
Current portion of long-term debt	**(8,436)**	—
Increase (Decrease) in Working Capital	**$ (75,820)**	$ 4,191

The accompanying notes are an integral part of these statements

1. Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of intercompany accounts and transactions. The accounts and transactions of the Company's Canadian operations and foreign affiliates are translated in accordance with Financial Accounting Standards Board Statement No. 8. Charges and credits to income as a result of foreign currency translation were not material.

The Company reclassified the 1978 Consolidated Statement of Income and Retained Earnings to include shipping and depreciation expenses of $32,918,000 and $7,824,000 in cost of sales and depreciation of $1,026,000 in selling, administrative and general expense. Similar reclassifications have been made to the Summary of Quarterly Data (Note 9). These reclassifications had no effect on net income.

INVENTORIES

Substantially all of the Chocolate and Confectionery segment inventories are valued under the "last-in, first-out" (LIFO) method. Such LIFO inventories amounted to approximately $60,088,000 in 1979 and $42,597,000 in 1978. Current cost, which approximates "first-in, first-out" (FIFO) cost, exceeded LIFO cost by approximately $107,645,000 at December 31, 1979 and $99,600,000 at December 31, 1978. The remaining inventories are principally stated at the lower of FIFO cost or market.

PROPERTY, PLANT AND EQUIPMENT

The Company provides straight-line depreciation for buildings over estimated lives ranging from 11 to 50 years and for machinery and equipment over estimated lives ranging from 3 to 25 years. Certain leases are capitalized at the present value of future minimum lease payments and are amortized using the straight-line method over the related lease terms of 3 to 20 years for buildings and 10 to 12 years for machinery and equipment.

Major renewals and improvements are capitalized. Maintenance, repairs and minor renewals are expensed as incurred.

The Company has adopted in 1979, the provisions of Financial Accounting Standards Board Statement No. 34 with respect to the capitalization of interest cost related to construction of certain major assets. The amount capitalized was approximately $900,000.

EXCESS OF COST OVER NET ASSETS OF BUSINESSES ACQUIRED

The excess of the acquisition cost over the fair value of the net assets of businesses acquired after October 31, 1970, is being amortized on a straight-line basis over a period of forty years. The excess relating to acquisitions made prior to November 1, 1970, is carried at cost until such time as there may be evidence of diminution.

INVESTMENTS

Investments represent the cost and the applicable equity in earnings since acquisition of less than majority-owned companies, less dividends received.

DEVELOPMENT AND PROMOTION EXPENSES

The costs of research and development ($3,569,000 in 1979 and $2,786,000 in 1978) and advertising and promotion are expensed in the year incurred.

INCOME TAXES

The provision for Federal and state income taxes is based on income recorded in the financial statements. Appropriate deferred income taxes are provided for the tax effect of timing differences resulting primarily from the use of accelerated depreciation for income tax purposes. The provision for income taxes has been reduced by allowable investment tax credits.

EMPLOYEE BENEFITS

The Company has non-contributory retirement plans covering substantially all salaried and full-time hourly employees. Costs are computed and funded on the basis of accepted actuarial methods and include current service costs of all plans and the amortization of prior service costs. Prior service costs, estimated at $53,500,000 are amortized principally over a period of 30 years. Total pension expense amounted to $8,469,000 in 1979 and $6,262,000 in 1978. The actuarially determined value of vested benefits exceeds the market value of plan assets by approximately $15,700,000 at December 31, 1978, the date of the most recent determination.

The Company has Savings and Stock Investment Plans for its employees. The Company contributions under these plans are used to purchase the Company's common stock at prevailing market prices. Such contributions amounted to $541,000 in 1979 and $221,000 for the six month period in 1978 that the plan was in effect.

NET INCOME PER COMMON SHARE

Net income per common share has been computed based on the weighted average number of shares of common stock outstanding during the year (14,152,955 in 1979 and 13,742,101 in 1978).

2. Acquisitions

On January 3, 1979, the Company, in a pooling of interests transaction, acquired all of the outstanding shares of common stock of Skinner Macaroni Company in exchange for 398,680 shares of the Company's common stock. Prior year consolidated financial statements have not been restated as the effect would not be material. The adjustment to Retained Earnings of $1,444,000 represents the retained earnings of Skinner at January 1, 1979.

On January 18, 1979, the Company entered into a joint venture agreement in Brazil with S. A. Industrias Reunidas F. Matarazzo to manufacture, market and distribute pasta, biscuits and margarine and also distribute certain products manufactured by the food division of Matarazzo. The Company's initial investment amounted to approximately $7,500,000 representing a 40% equity interest.

During January, 1979, the Company acquired for cash substantially all of the outstanding common stock of Friendly Ice Cream Corporation and Friendly became a wholly-owned subsidiary through a merger effective April 9, 1979. The total acquisition cost amounted to approximately $164,000,000. The acquisition has been accounted for as a purchase and the excess of the acquisition cost over the fair value of the assets acquired and liabilities assumed approximated $39,800,000. Accordingly, the results of Friendly are included in the Consolidated Statements of Income and Retained Earnings for eleven months of 1979. Had the January, 1979 results of Friendly been included in the consolidated results of operations, the effect would not have been material.

Had Friendly been acquired on January 1, 1978, the unaudited combined results of operations for 1978 including amortization and depreciation adjustments based on the final asset appraisal and interest expense on funds expended for the acquisition would have reflected net sales of approximately $986,000,000; net income of $43,000,000 and net income per common share of $3.13. These unaudited pro forma amounts are based on the Company's audited results of operations for the year ended December 31, 1978, and Friendly's unaudited results of operations for the twelve months ended December 31, 1978.

3. Income Taxes

The provision for income taxes exceeds taxes currently payable by $11,283,000 in 1979 and $3,764,000 in 1978, primarily because of the use of accelerated depreciation methods for income tax purposes. The following table reconciles the provision for income taxes with the amount computed by applying the Federal statutory rate.

	1979 Amount	1979 %	1978 Amount	1978 %
	(in thousands of dollars)			
Taxes computed at statutory rate	**$47,883**	**46.0**	$39,315	48.0
Increase (reductions) resulting from:				
State income taxes, net of Federal income tax benefits	**4,552**	**4.4**	3,354	4.1
Investment tax credit	**(3,680)**	**(3.5)**	(2,008)	(2.4)
Nondeductible expenses relating to acquisitions	**2,074**	**2.0**	—	—
Other, net	**(240)**	**(.3)**	(211)	(.3)
Provision for income taxes	**$50,589**	**48.6**	$40,450	49.4

4. Short-Term Debt

As a result of seasonal working capital requirements, the Company maintained lines of credit arrangements with domestic banks, under which it could borrow up to $105,000,000 at the lending banks' prime commercial interest rate. These lines of credit, which may be used to support commercial paper borrowings, may be terminated at the option of the banks or the Company. At December 31, 1979, there were no borrowings under these lines of credit. During 1978, the Company had maintained lines of credit of $60,000,000. There were no borrowings under these lines of credit in 1978.

The average outstanding short-term debt under both lines of credit and commercial paper during 1979 was $66,326,000 with a weighted average interest rate of 11.8%. The maximum amount of short-term borrowings by the Company at any month-end in 1979 was $98,095,000.

While there are no compensating balance agreements which legally restrict these funds, the Company generally maintains compensating balances of 10% to 20% of borrowings under these lines of credit or generally not less than 5% of commitments.

5. Long-Term Debt

Long-term debt at December 31, 1979 and 1978 consisted of the following:

	1979	1978
	(In thousands of dollars)	
9½% Sinking Fund Debentures due 2009	$ 75,000	$ —
7¼% Sinking Fund Debentures due 1997	27,000	28,500
Less-Debentures repurchased	(3,060)	(3,960)
8.7% Senior Notes due 1992	20,000	—
8⅞% Promissory Notes due 1980	—	7,000
6⅞% Industrial Revenue Bonds due 2000–2005	4,000	4,000
Other obligations	4,946	—
	$127,886	$35,540

In December, 1978, in connection with the acquisition of Friendly Ice Cream Corporation (see Note 2), the Company obtained a revolving credit and term loan agreement with four banks which provided for borrowings of up to $200,000,000 (reduced to $100,000,000 on January 22, 1979). This agreement was cancelled on March 15, 1979, with the issuance of $75,000,000 of 9½% Sinking Fund Debentures due 2009 used to finance long-term, a portion of the acquisition price. Sinking Fund payments on the Debentures begin in 1985 with an annual payment of $3,000,000. The total amount borrowed under the revolving credit and term loan agreement averaged $96,576,000 with a weighted average interest rate of 11.6%.

During 1979, the Company purchased $600,000 of its 7¼% Sinking Fund Debentures. A total of $1,500,000 of previously purchased Debentures were utilized to meet the 1979 Sinking Fund requirement. The Company intends to use the $3,060,000 of repurchased Debentures at December 31, 1979, to meet future Sinking Fund requirements.

On November 20, 1979, the Company issued $20,000,000 of 8.7% Senior Notes due January 15, 1992, in exchange for similar notes issued by Friendly in 1977. Annual payments of $2,000,000 begin in 1983.

The aggregate annual payments of long-term debt, net of repurchased debentures of $1,500,000 in 1980 and 1981 and $60,000 in 1982 and exclusive of capitalized lease obligations for the succeeding five years are: 1980, $7,406,000; 1981, $311,000; 1982, $1,732,000; 1983, $3,817,000; 1984, $3,844,000.

6. Management Incentive Plans

The Company has management incentive plans for eligible employees having substantial managerial or similar responsibilities. The Plans include both annual and long-term incentive compensation programs. The amount charged to expense for the years ended December 31, 1979 and 1978 was $1,970,000 and $1,300,000 respectively.

7. Lease Commitments

Leased property which qualifies as capitalized leases relates primarily to the assets of Friendly.

Total rent expense for all other leases for the years ended December 31, 1979 and 1978 including contingent rentals was $10,106,000 and $3,812,000 respectively. Other leases pertain principally to warehousing and transportation items.

Future minimum lease payments under noncancelable leases with an original term in excess of one year as of December 31, 1979, are as follows:

	Capital Leases	Other Leases
	(in thousands of dollars)	
1980	$ 2,472	$ 2,997
1981	2,464	2,350
1982	2,402	1,774
1983	2,271	1,484
1984	2,210	1,218
1985 and beyond	16,460	7,002
Total minimum lease payments	$28,279	$16,825

The total minimum lease payments under capital leases include $11,435,000 of imputed interest.

8. Industry Segments and Impact of Inflation

Industry segment information and unaudited information with respect to the impact of inflation are shown on pages 4, 33 and 34 of this report.

9. Summary of Quarterly Data *(Unaudited)*

(In thousands of dollars except per share amounts)

Year 1979	First	Second	Third	Fourth	Year
Net sales	$277,848	$249,939	$314,432	$319,076	**$1,161,295**
Gross profit	72,508	68,636	87,049	77,850	**306,043**
Net income	$ 12,352	$ 10,475	$ 17,410	$ 13,267	**$ 53,504**
Net income per common share	$ .87	$ .74	$ 1.23	$ .94	**$ 3.78**

Year 1978	First	Second	Third	Fourth	Year
Net sales	$190,883	$151,814	$201,374	$223,809	**$ 767,880**
Gross profit	50,916	38,705	54,820	63,302	**207,743**
Net income	$ 10,317	$ 6,170	$ 11,627	$ 13,342	**$ 41,456**
Net income per common share	$ .75	$ .45	$ .85	$ .97	**$ 3.02**

Management Responsibility for Financial Statements

Hershey Foods Corporation management is responsible for the information and representations contained in this annual report. Management believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate under the circumstances to reflect in all material respects the substance of applicable events and transactions. In preparing the financial statements, it is necessary that management make informed estimates and judgments. The other financial information in this annual report is consistent with the financial statements.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that the cost of the system must be related to the benefits to be derived. Management believes its system provides this appropriate balance. The Company maintains an Internal Auditing Department which reviews the adequacy and tests the application of internal accounting controls.

The financial statements have been examined by Arthur Andersen & Co., independent public accountants, whose appointment was ratified by stockholder vote at the last annual stockholders' meeting. The independent public accountants' report expresses an opinion as to whether the Company's financial statements are fairly stated in conformity with generally accepted accounting principles. Their examination was performed in accordance with generally accepted auditing standards and, accordingly, included reviewing the internal accounting controls and conducting other auditing procedures they deemed necessary.

The Audit Committee of the Board of Directors of the Company, consisting solely of outside directors, meets regularly with the independent public accountants, internal auditors, and management to discuss, among other things, the audit scopes and results. Arthur Andersen & Co. and the internal auditors both have full and free access to the Audit Committee, with and without the presence of management.

Auditors' Report

To the Stockholders and Board of Directors
of Hershey Foods Corporation:

We have examined the consolidated balance sheets of Hershey Foods Corporation (a Delaware corporation) and subsidiaries as of December 31, 1979, and 1978, and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 1979, and 1978, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

New York, N.Y.
February 11, 1980.

Impact of Inflation *(Unaudited)*

The Financial Accounting Standards Board, (FASB), has adopted Financial Accounting Standard No. 33 "Financial Reporting and Changing Prices" requiring presentation with respect to the impact of inflation on certain elements of the Company's financial statements. This is determined by utilizing the Consumer Price Index to adjust for the decline in the purchasing power of the dollar with respect to inventory and property, plant and equipment. The Company believes that the supplementary data included herein must be viewed with caution, as must any other analytical data which is determined in accordance with prescribed experimental techniques.

CURRENT YEAR STATEMENT

The following statement reflects an increase in cost of sales and depreciation expense resulting from the decline in purchasing power of the dollar. The use of the LIFO method of costing for a substantial portion of the Company's inventories minimizes the adjustment to cost of sales (excluding depreciation) required to restate into average 1979 dollars.

The gain from decline of purchasing power of net amounts owed indicates that the total monetary liabilities at December 31, 1979 requiring a fixed future cash settlement exceeds monetary assets. During periods of inflation debtors benefit because less purchasing power will be required to satisfy such future obligations. Since the gain will not be realized until the long-term debt is repaid with cheaper (less purchasing power) dollars, it is excluded from net income.

The historical value of net assets (total assets less total liabilities) has been restated for the excess of average 1979 dollar values for inventories and property, plant and equipment over the respective historical dollar amounts and the increase resulting from restating net monetary liabilities into 1979 average dollar values.

STATEMENT OF INCOME FROM OPERATIONS ADJUSTED FOR GENERAL INFLATION
For the Year Ended December 31, 1979
(in thousands of dollars)

	As Reported in the Primary Statements	Adjusted for General Inflation
	(Historical dollars)	(Average 1979 Dollars)
Net sales	$1,161,295	$1,161,295
Cost of sales (excluding depreciation)	835,877	844,619
Selling, administrative and general expenses (excluding depreciation)	183,046	183,046
Depreciation expense	20,515	25,905
Interest expense—net	17,764	17,764
Income before taxes	104,093	89,961
Income taxes	50,589	50,589
(effective tax rate—see note below)	(48.6%)	(56.2%)
Net income	$ 53,504	$ 39,372
Gain from decline of purchasing power of net amounts owed	—	$ 26,590
Net assets at year-end	$ 320,730	$ 469,456

NOTE: The effective tax rate increases as inflation erodes earnings, since actual income tax expense is not effected by such erosion.

FIVE-YEAR COMPARISON

The five-year comparison shows the effect of adjusting historical net sales, dividends per common share and market price per common share to dollar amounts expressed in terms of average 1979 dollars, as measured by the Consumer Price Index.

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF GENERAL INFLATION

(in thousands of average 1979 dollars, except per share amounts)

	1979	1978	1977	1976	1975
Net sales	$1,161,295	$854,343	$803,996	$767,559	$777,016
As reported	$1,161,295	$767,880	$671,227	$601,960	$576,165
Historical cost information adjusted for general inflation:					
Income before taxes	$ 89,961				
As reported	$ 104,093				
Net income per common share	$ 2.78				
As reported	$ 3.78				
Net assets at year-end	$ 469,456				
As reported	$ 320,730				
Gain from decline in purchasing power of net amounts owed	$ 26,590				
Cash dividends declared per common share	$ 1.35	$ 1.36	$ 1.37	$ 1.31	$ 1.15
As reported	$ 1.35	$ 1.225	$ 1.14	$ 1.03	$ .85
Market price per common share at year-end	$ 23.32	$ 22.10	$ 23.22	$ 27.91	$ 24.35
As reported	$ 24.63	$ 20.63	$ 19.88	$ 22.38	$ 18.63
Average Consumer Price Index	217.4	195.4	181.5	170.5	161.2

Reference is made to the Annual Report Form 10-K (copy available on request) for additional information with respect to the estimated replacement cost of inventories and property, plant and equipment at December 31, 1979 and 1978, and the related estimated effect of such costs on cost of sales and depreciation expense for the years then ended.

Six-Year Financial Summary

Hershey Foods Corporation and Subsidiaries
(All dollar and share amounts in thousands except market price and per share statistics)

	1979	1978	1977	1976	1975	1974
Summary of Earnings						
Continuing Operations						
Net Sales	**$ 1,161,295**	767,880	671,227	601,960	576,165	511,083
Cost of Sales	**$ 855,252**	560,137	489,802	417,673	413,134	404,658
Operating Expenses	**$ 184,186**	128,520	110,554	94,683	77,573	54,219
Interest Expense	**$ 19,424**	2,620	2,422	2,240	3,126	3,710
Interest Income	**$ 1,660**	5,303	2,931	1,883	1,862	1,431
Income Taxes	**$ 50,589**	40,450	35,349	45,562	43,292	25,718
Income from Continuing Operations	**$ 53,504**	41,456	36,031	43,685	40,902	24,209
Income (Loss) from Discontinued Operations	**$ —**	—	—	1,112	(1,457)	(1,608)
Gain (Loss) Related to Disposal of Discontinued Operations	**$ —**	—	5,300	—	(4,898)	—
Net Income	**$ 53,504**	41,456	41,331	44,797	34,547	22,601
Income Per Share of Common Stock						
Continuing Operations	**$ 3.78**	3.02	2.62	3.18	2.99	1.77
Discontinued Operations	**$ —**	—	—	.08	(.11)	(.12)
Gain (Loss) Related to Disposal	**$ —**	—	39	—	(.36)	—
Net Income	**$ 3.78**	3.02	3.01	3.26	2.52	1.65
Dividends Per—Common Share	**$ 1.35**	1.225	1.14	1.03	.85	.80
Preferred Share	**$ —**	—	—	—	.60	.60
Average Number of Common Shares and Equivalents Outstanding During the Year	**14,153**	13,742	13,722	13,720	13,698	13,685
Per Cent of Income from Continuing Operations to Sales	**4.6%**	5.4%	5.4%	7.3%	7.1%	4.7%
Financial Statistics						
Capital Additions	**$ 56,437**	37,425	27,535	20,722	10,542	11,084
Depreciation*	**$ 20,515**	8,850	7,995	7,539	7,541	7,928
Advertising*	**$ 32,063**	21,847	17,637	13,330	9,499	1,814
Current Assets	**$ 170,250**	216,659	221,202	169,872	157,579	129,226
Current Liabilities	**$ 103,826**	74,415	83,149	47,309	53,808	59,156
Working Capital	**$ 66,424**	142,244	138,053	122,563	103,771	70,070
Current Ratio	**1.6:1**	2.9:1	2.7:1	3.6:1	2.9:1	2.2:1
Long-Term Debt and Lease Obligations	**$ 143,700**	35,540	29,440	29,440	29,856	31,730
Debt-to-Equity Per Cent	**45%**	13%	11%	13%	15%	18%
Stockholders' Equity	**$ 320,730**	284,389	259,668	233,529	202,466	178,238
Stockholders' Data						
Outstanding Common Shares at Year-End	**14,159**	13,745	13,730	13,720	13,720	12,485
Market Price of Common Stock—						
At Year-End	**$ 24⅝**	20⅝	19⅞	22⅜	18⅝	9¾
Range During Year	**$ 26½–17⅜**	23½–18½	22⅜–16⅝	27½–18½	20⅞–10⅛	15–8½
Number of Common Stockholders	**18,417**	18,735	19,694	20,421	19,686	19,769
Employees' Data						
Payrolls	**$ 227,987**	112,135	99,322	88,848	78,973	77,484
Number of Full-Time Employees—Year-End	**11,700**	8,100	7,660	7,670	7,580	7,740

*Restated to reflect continuing operations only

CORPORATE OFFICERS

Harold S. Mohler,
Chairman of the Board

William E. Dearden,
Vice Chairman of the Board and Chief Executive Officer

Richard A. Zimmerman,
President and Chief Operating Officer

Charles E. Duroni,
Vice President and General Counsel

John S. Harkins,
Vice President, Finance and Commodities

Dr. Ogden C. Johnson,
Vice President, Science and Technology

Richard M. Marcks,
Vice President, International

William P. Noyes,
Vice President, Human Resources

Louis C. Smith,
Vice President

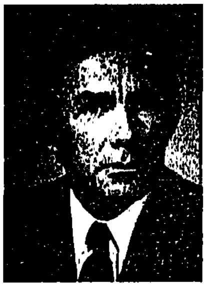
Charles A. Smylie,
Vice President, Administration

William F. Suhring,
Vice President, Corporate Development

William Lehr, Jr.,
Secretary

Michael F. Pasquale,
Controller

Kenneth L. Wolfe,
Treasurer


Charles E. Duroni


John S. Harkins


Dr. Ogden C. Johnson


Richard M. Marcks


William P. Noyes


Charles A. Smylie


William F. Suhring

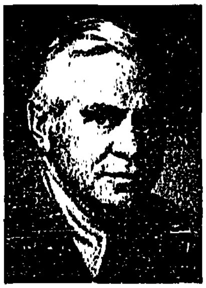

William Lehr, Jr.


Michael F. Pasquale


Kenneth L. Wolfe


Harold S. Mohler


William E. Dearden


Richard T. Baker


Robert J. Gaudrault


John C. Jamison


Francine I. Neff


Philip A. Singleton


Louis C. Smith


Earl J. Spangler


John C. Suerth


Richard A. Zimmerman


Samuel A. Schreckengaust, Jr., who retired from the Board on October 1, 1979, after serving eight years as a Director.

BOARD OF DIRECTORS

Harold S. Mohler
Chairman of the Board

William E. Dearden
Vice Chairman of the Board and Chief Executive Officer

Richard T. Baker
Consultant and Former Managing Partner, Ernst & Whinney, certified public accountants, Cleveland, Ohio

Robert J. Gaudrault
Chairman and Chief Executive Officer, Friendly Ice Cream Corporation, Wilbraham, Mass.

John C. Jamison
Partner, Goldman, Sachs & Co., investment bankers, New York, N.Y.

Francine I. Neff
Vice President, Rio Grande Valley Bank, Albuquerque, N.M.

Philip A. Singleton
President, Singleton Associates International, industrial consultants, Amherst, Mass.

Louis C. Smith
Vice President

Earl J. Spangler
President, Hershey Chocolate Company

John C. Suerth
Director and Member, Executive Committee, Gerber Products Company, manufacturer of food and infant care products, Fremont, Mich.

Richard A. Zimmerman
President and Chief Operating Officer

AUDIT COMMITTEE

Richard T. Baker, *Chairman*
John C. Jamison
Francine I. Neff

COMPENSATION COMMITTEE

John C. Suerth, *Chairman*
Francine I. Neff
Philip A. Singleton

EMPLOYEE BENEFIT COMMITTEE

Philip A. Singleton, *Chairman*
Richard T. Baker
John C. Suerth

EXECUTIVE COMMITTEE

Harold S. Mohler, *Chairman*
William E. Dearden
Richard A. Zimmerman